

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7642

BILL NUMBER: HB 1714

DATE PREPARED: Feb 6, 2001

BILL AMENDED:

SUBJECT: Homestead Credits.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill changes the property tax Homestead Credit for taxes payable in 2002 from 4% to 10%, and freezes the credit at 10% for later years. The bill also establishes a Reassessment Protection Homestead Credit (which is in addition to the Homestead Credit) for taxes payable in 2003 and later years, and directs the State Board of Tax Commissioners to determine the percentage of the credit under a formula designed to offset shifts of taxes to residential real property caused by general reassessments of real property. The bill makes conforming changes.

Effective Date: January 1, 2001 (retroactive); January 1, 2002.

Explanation of State Expenditures: The state currently provides a Homestead Credit against the property tax due on a person's principal residence. The credit is currently equal to 10% of the property tax liability and is scheduled to be reduced to 4% for CY 2002 and years thereafter. CY 2000 Homestead Credit payments totaled \$184.5 M.

In estimating the impact of this bill, it was assumed that the currently proposed real property assessment rule will be used to revalue property for the next reassessment. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

According to the bill, the State Board of Tax Commissioners would determine the percentage of the Reassessment Protection Homestead Credit in each year that a general reassessment takes effect. The percentage is based on a formula that compares (1) the percent that residential property AV is of the total real property AV in the year before reassessment with (2) the percent that residential property AV is of the total real property AV in the year that reassessment takes effect. The percentage for CY 2003 is estimated at 11.4%.

The bill also increases the current Homestead Credit from 4% to 10% for CY 2002 and all years thereafter.

This credit would be computed after the tax reduction afforded by the Reassessment Protection Homestead Credit.

The following table shows the estimate of additional state costs under this bill.

(In Millions)					
	Current Homestead Credit	Reassessment Protection Homestead Credit	10% Homestead Credit	Total Proposed Credits	Increase
FY 2002	\$139.2		\$201.3	\$201.3	\$62.1
FY 2003	93.3	147.9	218.5	366.4	273.1
FY 2004	106.9	304.5	236.7	541.2	434.3
FY 2005	113.2	322.7	250.8	573.5	460.3

Homestead credits are paid from the Property Tax Replacement Fund (PTRF) which is annually supplemented by the state General Fund. Likewise, the Reassessment Protection Homestead Credit would also be paid from the PTRF. Any additional PTRF expenditures would ultimately come from the General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenue would not be affected by this proposal.

State Agencies Affected: State Board of Tax Commissioners; Department of Revenue; Auditor of State; Property Tax Replacement Fund Board.

Local Agencies Affected: County auditors; County assessors.

Information Sources: Auditor of State's Office; County Auditor Abstracts.